



THE CAUSES OF THE FAILURE OF VERY SMALL MOROCCAN COMPANIES: CASE  
THE RETAIL SECTOR IN MOROCCO

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*Abstract*

*The political interest is to "push" the creation of very small businesses through incentives of all kinds. Indeed, the difficult context encountered in Morocco since 2009 (where creations are increased by 43% between 2009/2017 against a spectacular increase in default 228% from 2451 to 8020) does not lie this trend, creations of companies continue to increase in 2018 with 12% between 2017/2018 to reach 46,332 units in 2018; and largely compensate for the mortality of larger companies, 1.*

*The most affected by these bankruptcies are companies operating in commerce, real estate and construction. These three sectors supply 72% of bankruptcies, trade being the most affected with more than a third of bankruptcies in 2017. "This sector is one of the most integrated in the economy, especially wholesale trade which depends on both retail trade and*

*Our ambition through this article is to identify the difficulties of very small businesses, the failing business in the retail sector. It aims to understand the determinants of the difficulties of very small business through the results obtained following a survey carried out with a sample of very small businesses operating in the retail sector from all regions of the kingdom.*

*According to the results obtained, it turns out that: the inability to control fixed costs, competition from large areas and poor cash management directly influences the activity of small retail traders. To this we add exogenous factors such as: market access, Taxation, real estate and human resources management.*

*Keywords: difficulties, failure, very small business, retail, causes of failure,*

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<sup>1</sup> Une enquête sur les liens réticulaires dans les PME dynamiques, Géographie Économie Société 2004/2, Vol. 6, p. 179-201



## I. INTRODUCTION

Since the end of the 90s, it has to be noted a timid evolution of studies on VSE in this sense we quote "The world of small and especially very small business remains largely a mystery" according to JULIEN and MARCHESNAY (1992) . For MEIER and PACITTO (2007), "the management of very small business is an enigma". For MARCHESNAY (2003), we have to "get out of ignorance". ; Indeed, these studies constitute only a small part given all the studies studying SMEs in general. Empirical data on very small businesses remains scarce, and it should be noted that for all kinds of reasons, these very small businesses are often excluded from national surveys by public bodies. We can therefore only be surprised on the one hand, the economic role played by very small businesses and, on the other hand, the interest shown to them.

In Morocco, the majority of very small businesses operate in the trade sector with a presence of 39% of the fabric of Moroccan businesses. In this part, Retail traders; with an establishment are organized in a traditional way and constitute the largest percentage in number around 70%. It should be noted that the Moroccan sector of retail trade constitutes 12.8% of the economy, employing 1.2 million people, or around 13% of the working population.

More failures, such as personal services, automotive and non-specialized businesses. However, very small companies, according to the latest statistics from Inforisk, are the first affected by the scourge of failure with 97% of the Moroccan entrepreneurial fabric: the increase in mortality is mainly attributable to those with less than 10 million DH in figures business. The expectations of declining activity in very small businesses are reflected in the increase in their demand for cash loans and the fall in those for investment credit. Consequently, the average financial cost of default has remained on a decreasing trend. In addition, the Greater Casablanca region is more affected by the vulnerability of very small businesses, contributing to most of the increase in insolvencies.

Our article is intended to be a project which attempts to bring added value in terms of the failures of Moroccan commercial enterprises in order to bring, first of all, a clarification of the polysemic concept which very small businesses and, secondly, identify and determine the indicators of difficulties of very small Moroccan companies in the retail sector and resort to increasing their life expectancy in a rapidly changing environment

Through this article, our purpose is. Identify and further explain the concept of the failure phenomenon. Since our study revolves around the difficulty of very small business in the trade sector, it would be wise and timely to clarify this controversial notion of very small business. We first advance the conceptual aspect, of business failure and raise the nuances between the terms that may arise between the research disciplines on the one hand, and on the other hand, dissect the concept of very small business.

In the second section we will approach our field of investigation by implementing the importance of these entities in the Moroccan territory faced with the lack of clarity of the concept and we insist on the macroeconomic role of the commercial sector in which very small Moroccan



companies operate. While exploiting for this the statistical data of HCP2 and the cabinet inforisk<sup>3</sup>.

Thirdly, we formulate the problem and the objective of the article in the light of the data mentioned in the previous sections in order to provide food for thought according to the hypotheses identified.

## II. CLARIFICATION OF THE CONCEPT OF FAILURE AND VERY SMALL BUSINESS

The default is understood as the cessation of payment or the total or partial cessation of economic activity, particularly in terms of its debt capacity. A company said to be in difficulty when its debt capacity is affected or exceeded.

In this section, we will first discuss the definition of business failure from a legal, economic and financial point of view.

### II-1 The failure feared by the economic sphere

The company fails economically when its expenses greatly exceed its revenues. This leads the company to find it unable to remunerate its factors of production which contribute to the realization of its economic asset.

As for the financial point of view, the company is in distress when its solvency is in deterioration noted from the ratios.

Cutze and Van (2008) state: "a company enters into a failure process following a problem of alignment with its environment. It could no longer maintain a viable strategic position in its market for various reasons". They analyze the restrictive nature to predict the difficulty of the enterprise by using the term process in order to target progressive deterioration, but "intrinsic" microeconomic stages of the enterprises created difficulties in its stages: size, age, sector of activity (argueti 1976).

According to economic thinking "Daubis and Meskens (2002) consider that a company must analyze the problems confronted continuously because the minimum default begins to worsen in order to turn into a more serious problem.

A so-called failing company if it is not able to achieve its economic, social and financial objectives on a regular basis. Or else, they pushed the reflection further by considering that anticipation is a primordial phase and essential both in panoply of companies which fail in this phase; the reason why they are lacking.

However, the failure profiles on the difficulties distinguish the failing companies from those which are not, but since this remains a little vague a group of researchers accept that the cessation of payment is a stage of the process connoted "spiral of the failure".

Economic failure is a system that implements the market-business-products<sup>4</sup>. A business achieves its economic objective when it achieves profitability and liquidity. . A "failing business"

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<sup>2</sup> HCP : Haut commissariat au plan : is the Moroccan institution responsible for statistical production, planning, forecasting, analysis and forecasting

<sup>3</sup> Inforisk : The INFORISK company is the specialist in commercial intelligence on Moroccan companies

<sup>4</sup> GRESSE,C 1994,les entreprises en difficultés ,Economica ,Paris



is an organization that cannot adapt to internal and external pressures that affect its long-term survival (Weitzel and Jonson, (1989). Three stages stand out in the chain of a company towards failure: -The first phase triggering the failure process is the low level of performance which is frowned upon externally; -The second; if no action is advocated to restore the situation of the threatened company. The latter continues to sink into the spiral of failure. Its organization and structure remains deteriorated. This growing deterioration in the internal situation of the company is reflected, first from a variable period of time depending on the case; then by the appearance of symptoms of failure (deterioration of financial indicators, in particular). The company then moves from the stadium "Failing business" at the "troubled business" stage because it can be recognized as such by external observers; - Concerning the third phase, a company characterized by bankruptcy is a company in difficulty whose organizational and financial situation is greatly deteriorated: the symptoms of default have been triggered and the solvency as well as the liquidity of the company are affected in a downward manner.

## II-2 Financial failure: a progressive process

Several financial factors can cause a business to default due to insufficient assets to honour financial commitments.

A company is only in financial difficulty if all or part of its solvency is affected, in other words if it is unable to meet its deadlines. Malecot (1981). When profitability is degraded, this would have a negative impact on the operation of the business through the deficit in the return on equity. This brings the firm into difficulty in obtaining new funds because it would be in the impossibility to remunerate them. In this sense it must contract a loan in order to make profitable but risky investments. However, this financing method generates financial charges which will have an implicit impact on the company's profit.

So, in this sense, we can argue that financial problems lead to operating difficulties which results in deterioration in profitability and which will have an impact on solvency.

It should also be added that when the revenues fail to cover all of the company's expenses. The latter experiences a very deterioration in its liquidity. Indeed, the notion of profitability has a close relationship with liquidity.

Ooghe and Van Wymeers (1990) distinguished four categories of companies on the basis of their state of health; the figure below summarizes this situation:

They reason from the point of view of added value and the excessive importance of the financial burdens which are considered to be the origin of the deterioration in profitability while arguing that when the company is faced with the impossibility of paying its debts this influences about the payment problem

Predicting the risk of financial difficulty affects the financial structure of the business. The insufficient equity, caused by the financial anomaly, leads the company to go into debt to save and maintain its investments. However, the fact of resorting to debt triggers the problem of autonomy of the firm (company becomes dependent which exposes him to the risk of fluctuating activity. This overview has allowed us to clarify the concept of default simultaneously with economic and financial concepts, but what about the legal side?



### II-3 Failure is a legal event

The legal event formalizing the economic difficulty of the company is the collective procedure because the latter is in the inability of the company to achieve a minimum of sufficient profitability to honour its commitments. "Flazy and Combiner; 1998".

Statistical data suggest that the issue of business failure is not only static, but also a permanent phenomenon judged by the number of business failures.

In this sense, a question imposes itself acutely: Can we not grasp and define the concept of business failure by the legal arsenal?

At the legal level, the term default is mentioned when the payment is stopped. However, a firm facing financial difficulties can be led to two scenarios: either a reorganization of protection of the commercial court, or a rescheduling of debts with the creditors. Choosing a particular choice depends on the costs borne by each solution. It is rational to choose the least expensive option.

At this level, we distinguish two lines of reflection: the first concerns Roman works, for them, "the bankrupt merchant was also eliminated from his corporation, his bench at the headquarters of the latter being then broken to symbolize this eviction (the word current bankruptcy comes from banca rota)". Collective procedures aim to eliminate and oust defaulting traders insofar as their situation has been connoted by the term bankruptcy. Afterwards, the meaning of bankruptcy expanded in less harsh terminology vis-à-vis the bankrupt merchant.

The second line of thought which is nowadays is a legal arsenal which supports companies in difficulty so that they pay their debts.

Roughly speaking, the purpose of the matter of law in the treatment of default is to punish the defaulting debtor who breaks his commitments to his creditors. At this point, the particularity of the default was reflected in the severity and harshness of the sanctions against the debtor, while the economic specificities were gradually taken into consideration by the rule of law.

Currently, we can argue that the law of difficulties of companies is more extensive than the law of bankruptcy whose repressive aspect dominates with regard to the merchant.

In Morocco, the way of apprehending the treatment of companies' difficulties is split into two parts: Before pronouncing the cessation of payment through prevention making it possible to anticipate and predict the risks and difficulties incurred by trying to overcome them via an amicable procedure, after cessation of payment and at the time of failure of the prediction tools, judicial processing (redress) is opened.

Likewise, the right of difficulties for companies has made no gender discrimination while stipulating in book 5 of the Moroccan Commercial Code which does not concern all companies, but only those specified in article 560: the procedures for dealing with the company's difficulties are applicable to all traders, all craftsmen and all commercial companies [...].<sup>5</sup>

### II-4 Very small business: a concept under the light

This part tries to answer the following question "what are we talking about when we talk about very small business?" "

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<sup>5</sup> <https://droitmaroc.wordpress.com/2007/05/23/la-cessation-de-paiement-vue-par-le-tribunal-de-commerce-de-casablanca/>



## A- The general characteristics of Very small business

### Quantitative criteria

The quantitative vision alludes to the criterion of the size of the company because the indicators most often used are those which relate to the various components of the activity of the company are relative to the permanent permanent workforce, to the turnover , debt, total balance sheet, value added, share capital and market share occupied by the company in question.

However, it is clear that this vision of quantitative analysis does not make it possible to have a unified and homogeneous definition of very small business for the simple reason of the economic and financial diversity of businesses between countries and between different sectors of activity. , this quantitative nail of attack only affects the most visible elements of the company, which makes its use, in a standard way, by all countries, an impossible or even erroneous task, and international comparisons between very small business very difficult. 6

### Qualitative criteria

The second category of criteria used to differentiate very small businesses from "large" businesses is descriptive of the business and its social and economic environment. This approach is based on theoretical and analytical tools that highlight the human dimension of the company. According to this family, the human aspect is considered to be the fundamental element that could be used to describe the small or medium business. According to the General Confederation of French Small and Medium-Sized Enterprises, the small or medium business is defined as "a production or distribution unit, a unit of direction or management under the authority of a manager fully responsible for the company, of whom he is often an owner and directly linked to the economic life of the company". Other approaches, more descriptive and multi-criteria, have been developed and highlight certain characteristics that can differentiate and identify small or medium business:

- Omnipresent role of the manager in the daily management of the small or medium business
- Lack of specialization for management staff
- Lack of strong position to negotiate purchases and sales
- Self-financing is most often the solution chosen by managers to meet financing needs given

the inaccessibility of the financial and banking markets.

"Very small businesses", independent businesses under 5

Employees achieve a turnover of less than 3 million dirhams, constitute an important PART of the entrepreneurial fabric.

Across the entire African continent, Very small businesses / small or medium business,

For more than 90% of the economic fabric (excluding agriculture) and their contribution to gross domestic product (GDP) would exceed 30% in many countries. We are not going to develop the concept of small or medium business which we would go beyond the subject of this report. Note however that there is no definition common to this type of business because it is too dependent on the national economic fabric nail. In West Africa, for example, the member states of the West African Economic and Monetary Union (UEMOA) adopted, in 2015, a draft "Community

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<sup>6</sup> Guerrero M., Rialp J. and Urbano D. (2008), "The impact of desirability and feasibility on entrepreneurial intentions: A structural equation model", *Int. Entrep. Manag. J.*, 4, pp. 35-50



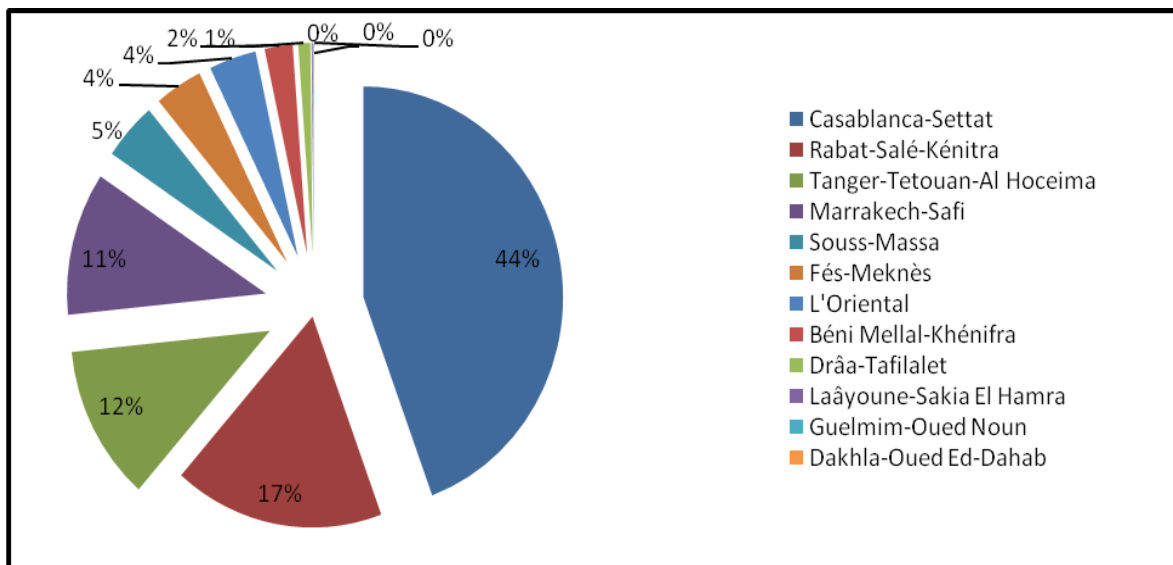
Charter for small or medium business” aimed in particular at agreeing on a common definition. Like these definitions, we take into account, throughout this following chapter, the new definition of Morocco small or medium business which states that the Very small businesses of which annual sales lower than 10Mdh.

### B-The role of the very small enterprise on the sectorial and regional

Level the distribution of very small businesses is characterized by disparity both at regional and sectorial level

#### Regional distribution

**Graph 1: the distribution of Moroccan very small enterprise by region**



Source OMPIC<sup>7</sup>

At the regional level, the statistics obtained show that more than 60% of very small businesses have concentrated on 3 main regions, namely: Casablanca -settat, Rabat-salé -Kenitra, Tanger Tétouan and Hoceima; as shown in the figure above.

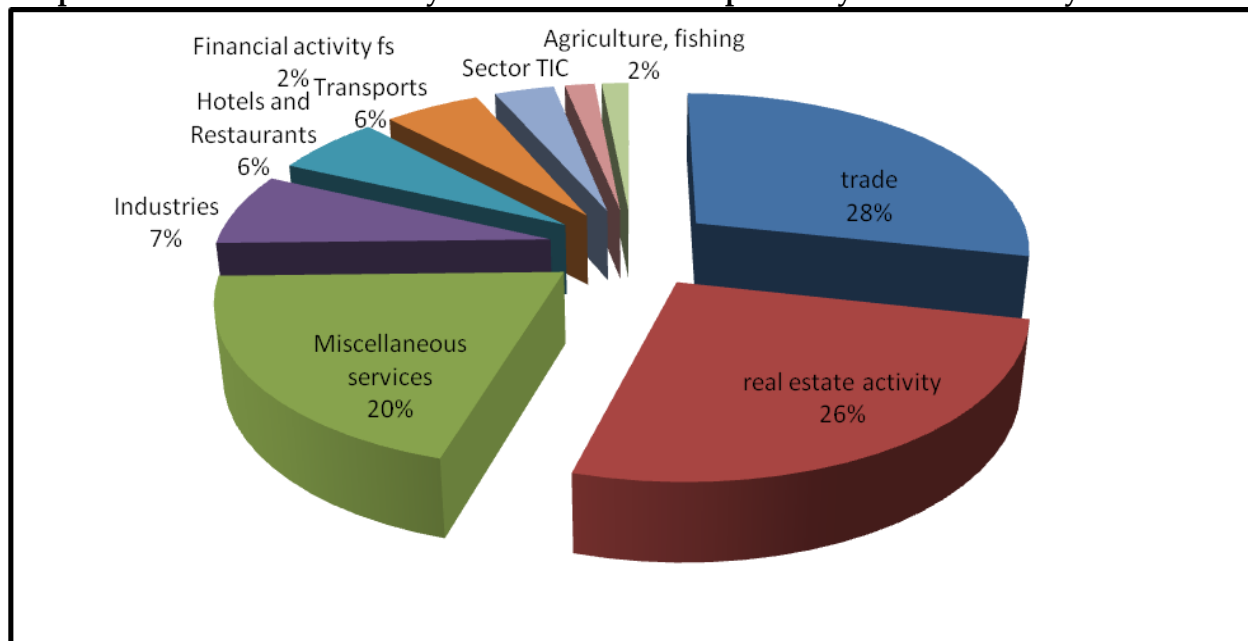
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<sup>7</sup> OMPIC : central commercial register



The sartorial distribution of very small businesses

Graph 2: the distribution of very small Moroccan companies by sector of activity



Source OMPIC

According to the data communicated by OMPIC, we note that the majority of the fabric of very small Moroccan companies is concentrated in trade activities 28%, followed by construction and real estate activities 26% then miscellaneous works and finally industries with a share of 20%. However, we note the low preponderance of very small companies in the transport sector, hotels and catering, NTIC, agriculture and financial activities with respective participation rates of 7%, 4%, 3%, 2% and 1%. The strong presence of the very small company within the Moroccan economic fabric is not to be demonstrated, it is legitimate to be interested in the sector in which the very small company registers a weight given the commercial sector constituting one flagship sectors for our economy.

### III. THE FAILURE OF THE VERY SMALL BUSINESS IN THE COMMERCE SECTOR: A WORRIED OBSERVATION

It is strong to note that Morocco occupies an unfavourable position as regards the failure of the companies which is fully justified by the rate of the failure communicated by the cabinet Euler Hermès<sup>8</sup>. From where this observation and this reality of the demography of our Entrepreneurial fabric requires urgent intervention by knowing and identifying the major determinants of the hemorrhage of disparity in Moroccan businesses, especially small or medium-sized businesses.

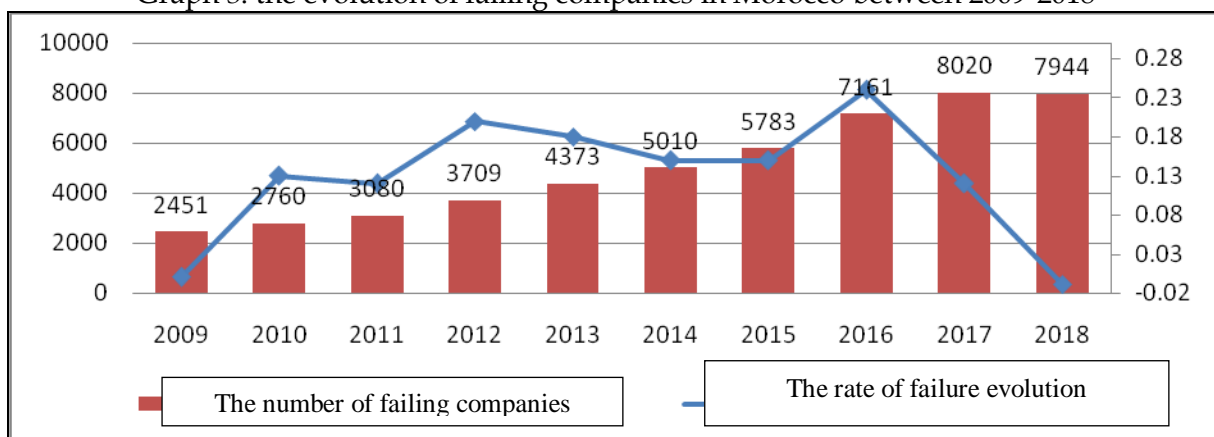
<sup>8</sup> Euler Hermes Germany participates in protective shield for German companies and suppliers.





The failure phenomenon is not a new one but it comes down to a continuous increase. In fact, this rate is due, according to experts in the field, to the change in the world economy which is turning more and more to the net. Activities are created at the expense of others, particularly in the area of internal trade.

Graph 3: the evolution of failing companies in Morocco between 2009-2018



Source: produced by us based on 2018 inforisk data

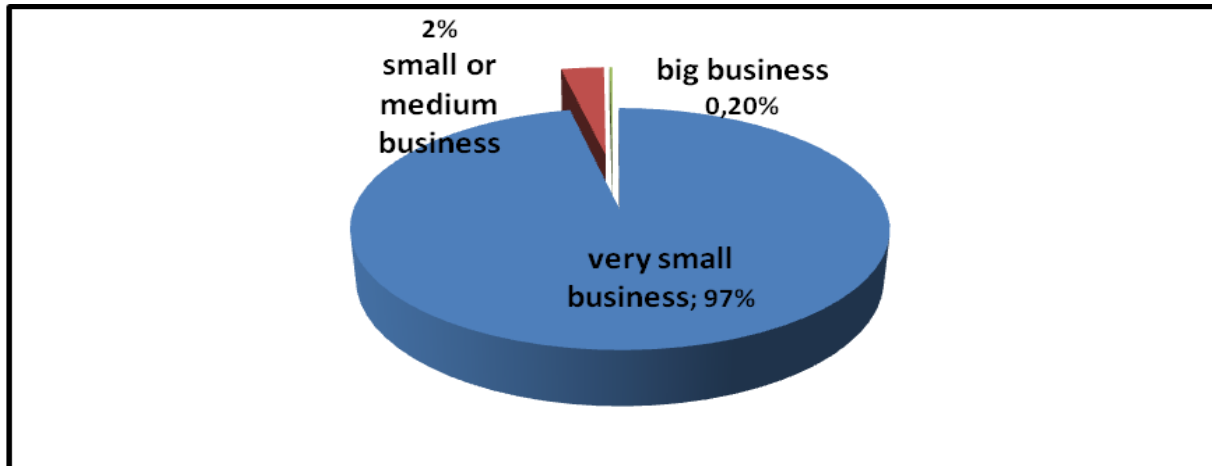
In 2018, the number of business deaths decreased slightly by 0.9%. At this stage, companies in difficulty are important. A majority of these companies wait until the last moment to present their removal from the commercial register<sup>9</sup>. At this stage, very small businesses are very poorly positioned. They get paid on average in 267 days. Of course, the delay in payment is the major cause of acceleration of the level of failures, especially of very small companies.

<sup>9</sup> ARTICL ON L'ÉCONOMISTE « DÉFAILLANCES D'ENTREPRISES: PREMIÈRE BAISSÉ EN DIX ANS » ,PAR FRANCK FAGNON ,EDITION N°:5444 LE 01/02/2019



III .1-THE VERY SMALL COMPANY IS THE COMPANY MOST AFFECTED BY THE  
DEFAULT

GRAPH 3 - TYPOLOGY OF FAILING COMPANIES



*Source: produced by us based on 2018 inforisk data*

Very small businesses are the most vulnerable businesses with a share of 97%, followed by small or medium-sized businesses 3% and lastly large businesses with 1%.

We see that the smaller the company, the more it suffers. This could be explained by the pace of creations in this section of companies.

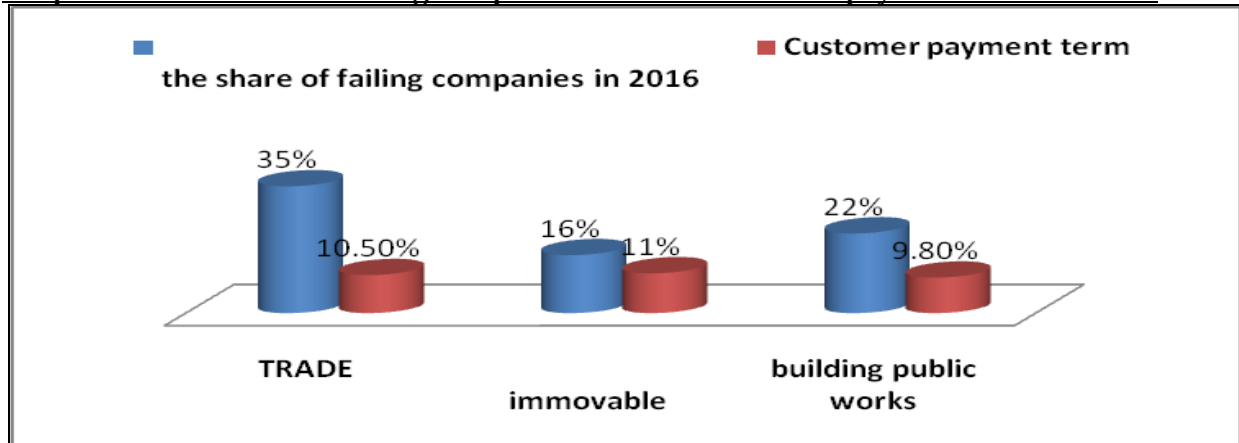
Several are the sources of vulnerability of this category of companies, the Very small companies, we cite by way of example:, the low diversification of the client portfolio, financing,, governance....

The average age of a failed company in 2018 was 4.5 years because the majority of companies start their activity with very little or no equity, which slows down their probability of exceeding the first five years of existence.



### III.2-THE TRADE SECTOR IS AMONG THE MOST AFFECTED SECTORS IN TERMS OF PAYMENT TERM

Graph 4: the share of defaulting companies and their customer payment terms for 2016



Source: produced by us based on 2018 inforisk data

A study by Inforisk on payment terms in this sector showed that very small businesses had suffered from a significant increase in customer loans to almost 11 months. Construction operators suffered the same ills in addition to the competitive intensity. .

In 2016, the sectors most affected by the scourge of default which broke the records in order of importance, in particular at the level of Very small companies, are construction (11 months), trade (10.5 months) and real estate (9.8 months).

In 2016, the extension of payment terms for Very small businesses operating in commerce rose to 315 days. This results in the closure of 35% of companies in the sector

In trade, it takes at least 315 days to be paid, and as much in real estate (294 days). These delays, beyond the reasonable, have a strong impact on the mortality of companies, especially very small business.

Roughly speaking, very small businesses are the 1st victim of payment delays with an average deadline of almost 10 months in 2016... If the failure of the big company is harmful for the economic situation, it is the same for the small companies where the default triggers the loss of job and the emotional aspect which links the entrepreneur to his business.

These two consequences mean that the failure of retail trade is not only harmful for the economic situation of the country but also for the promoter of the project.

### IV. THE PROBLEMATIC AND OBJECTIVE OF THE RESEARCH

Our ambition through this article is therefore to try to establish a balance of knowledge and try to open up avenues of research because what is most lacking in this matter is obviously the empirical data.



#### IV.1-THE RESEARCH PROBLEM

Faced with an expressive economic reality, our interest in very small businesses is due to the fact that literature is only just starting to take an interest. The complexity that surrounds them makes the approach difficult. The term Very Small Business covers a particularly heterogeneous set of organizational realities encompassing local shops, a large part of the craft industry, small industry, many service providers, the liberal professions and the agricultural world. Their diversity is so important that it prevents any exhaustive taxonomy work as recognized by MARCHESNAY (2003). In addition, these companies are perceived as opaque (LEVRATTO et alii, 2002) by their inability to provide reliable information to the various stakeholders<sup>5</sup>

Our ambition to tackle a theme under the theme of default is motivated by the absence of recent studies in Morocco dealing with the problem of the failure of very small businesses in the trade sector, particularly retail, except for a study prepared by the regional investment center entitled "post creation of companies in the region of Grand Casablanca".

The choice of retail trade as a research area did not come at random but it must be noted that it has contributed to the development of the trade sector, thus a strategic branch for the Moroccan economy experiencing enormous difficulties in recent years. Despite the importance of this essential component of the economic fabric, it did not benefit from the interest desired to speak of a real promotion of the economic fabric. These are all reasons justifying the need for the implementation of an investigation methodology This leads us to try to formulate our central research question as follows: "what are the determinants of the difficulty of very small businesses in the retail sector in Morocco". We want to show that the classic very small business is marked by the importance in the Moroccan economic fabric. Here we would like to provide answers to two questions: why do very small businesses suffer from the phenomenon of mortality and why do they not grow? From a methodological point of view, we rely on a large literature review concerning Very small companies but also the specification work of small or medium business some elements of which can be transposed. We also use our field knowledge from doctoral work and our experience as a financial advisor in charge of a portfolio of very small companies.

#### IV.2-RESEARCH OBJECTIVE

This article attempts to tackle a question of great importance in the Moroccan commercial fabric, particularly in terms of the demography of small commercial entities presenting the pillar of the Moroccan economy with a large working population... Nevertheless, the indicators linked to creation and mortality of these entities translate the policies advocated by the public authorities in particular in terms of incentive, encourage the creation of new entities, as well as support and maintenance of existing Enterprise and the reduction in the rate of morality and default.

#### V. THE DATA MOBILIZED AND EMPIRICAL TACTICS

We are led to build a methodological device based on quantitative approach that we will first try to justify by showing how we access the field



### V.1-CONSTRUCTION OF THE SAMPLE

Our data collection process involves several stages: the choice of the database, the selection of companies and failure indicators.

### V.2-PRESENTATION OF THE DATABASE

We used the database from the Ministry of Trade and Industry to build our sample. This database gave us the opportunity to access a fund made up of around 3000 companies operating in the trade sector, in particular the retail trade (natural and legal person. Collected by ministry during the 'Rawaj' program ,. The database consists of information for each company general on. The main information of the database are the following:

- Legal form and situation,
- Creation date
- Textual description of the activity,
- Surname and first name of the person responding to the survey
- Telephone number of the person responding to the survey
- Year of creation of the company
- Year of start of commercial activity
- the main activity of your company
- Turnover (DH).
- Number of employees (total workforce) as of 12/31/2017.
- area of the point of sale in m2.
- total investment in Morocco (in MAD) in 2017

### V.3-METHODOLOGICAL APPROACH

The survey was carried out on a sample of 90 commercial companies in the retail sector from all regions of the kingdom. These companies are selected according to their turnover. Since our research is interested in the very small business in this sector we obtained that the companies which have a turnover lower or equal 3Millions of Dh (Definition of the small or medium business charter) in order to have a representative sample of small or medium business presenting the retail sector.

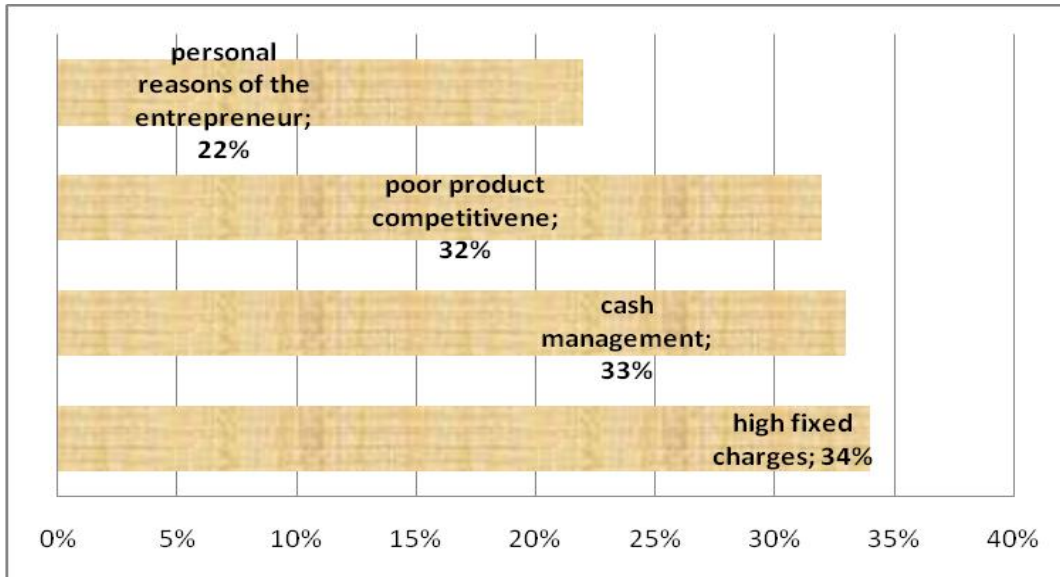
Through the data available and the theoretical knowledge dealing with the explanatory factors for failures and in the light of numerous similar surveys made in Morocco, but taking into account the specificities of the Moroccan company. It is about particular of three surveys carried out by the High Commission for Planning . We were able to establish a questionnaire of 20 questions translating the factors of the difficulty of very small businesses in the Moroccan retail trade.

Regarding the depuiollement of data obtained during telephone interviews it was done using Excel

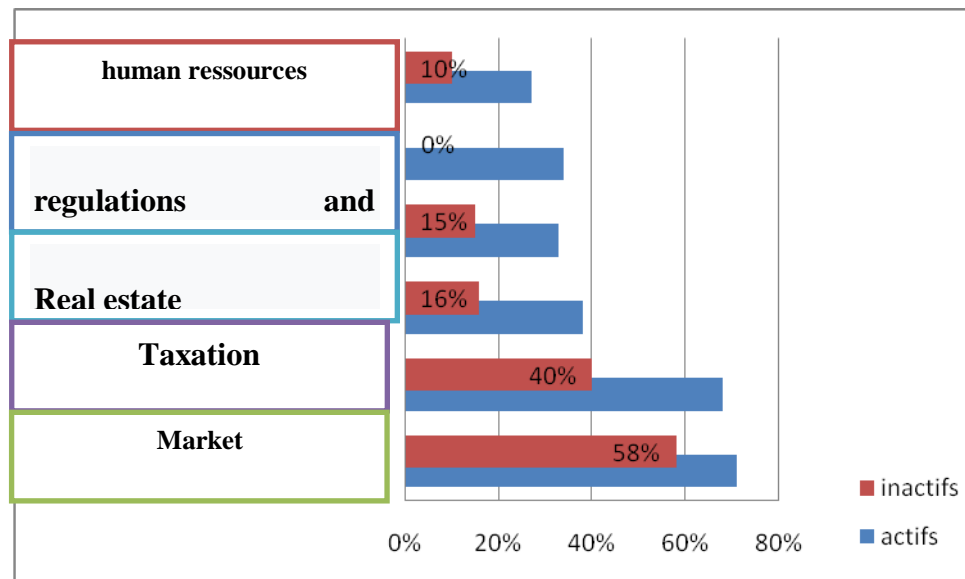


## VI. RESULTS

**Graph 5: the endogenous determinants of the failure of commercial enterprises**



**Graph 6: the exogenous determinants of the failure of commercial enterprises**



## VII. DISCUSSION

From the results obtained graph 5, it turns out that the direct factor in the face of business failure and the inability to manage finances. Indeed financial mismanagement is considered to be the triggering factor for difficulty in retail businesses.



The first key determinant of the difficulty of the commercial enterprise is an increase in fixed costs (rent, etc.) followed by poor anticipation of its working capital requirement, in other words a long customer payment period faced with a short supplier period. The thing that unbalances the treasury of the company. In the third rung competition from supermarkets and supermarkets. We should even mention unfair competition as well as the informal sector.

Before addressing the characteristics of failing companies, we will take stock of the fate and causes of business failures.

It should be noted that the companies suffering from the difficulties are those are in a state of cessation of payments following the declaration of the merchants during the investigation.

About 30% of the interviewees are in a situation of cessation of payments reflected by the deletion from the commercial register. The latter is stipulated by the court in the event that the company is unable to continue its activity,. However, 70% of merchants surveyed still carry out their activities and suffer from some difficulties, both at the endogenous and exogenous levels.

From the results obtained we find that

Graph 6 that Access to the market is the first difficulty as prioritized by companies, whatever their activity sector (7 out of 10 active companies consider it a priority, 6 out of 10 inactive companies they consider priority)

- Access to funding is the second difficulty (6.5 out of 10 active companies consider it a priority, 4 out of 10 inactive companies consider it a priority)
- Taxation, real estate and HR would not constitute a priority difficulty for companies

## VIII. CONCLUSION

Throughout this paper we have clarified the complexity of the failure as well of the conceptual as theoretical framework. The process of the failure is triggered by economic problems which generate financial distress so that it is formalized legally by the filing of the bankruptcy with the commercial courts. Indeed, the theoretical contributions are abundant and rich between economic, financial, organizational and managerial approaches



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